UNDERWRITING GUIDELINES & FINANCING POLICY

Construction Only Loan Program

Please Take Notice

These underwriting guidelines, policies, procedures, and forms may be amended from time to time due to changes in market conditions and/or changes in the HMFA's housing policies or initiatives. Such amendments may occur without notice and are applicable to all pending and future applications. Applicants are, therefore, responsible for contacting the HMFA to ascertain whether or not there have been any changes since the date of these guidelines and for complying with such changes. Unless otherwise stated in these guidelines the Multifamily Programs and Lending guidelines apply.

Eligible Projects

Projects being built as a result of the awarding of a HUD Turnkey Contract from a local Housing Authority to a developer with the intention that the local Housing Authority will purchase the project upon construction completion; Projects receiving an award of HUD HOPE VI Contract; and projects in need of a construction bridge loan or construction only loan.

Sponsoring entity must be formed for the sole purpose of owning and operating the project and shall own no other assets unrelated to the project.

"Scattered site project" means a project that consists of buildings which are not all proximate to one another but located within the same municipality. The entire project must be included within a municipally approved redevelopment area. The Agency must determine that a scattered site project would be a compliment to the municipality's overall redevelopment plan. A project that is complementary to an overall redevelopment plan will be found to have a positive impact on the neighborhood by improving the health, safety and welfare of the residents. To be considered an eligible project, each building must meet one or both of the following criteria: (1) be within ½ mile of a rail, light rail, subway, ferry, or major bus corridor station (2) within an approximate ½ mile radius of the most central project building. Additionally, each building must be underwritten as self supporting and the developer will be responsible for providing personal guarantees or other acceptable credit enhancement on each building as security against the aggregate loan. The developer must also demonstrate that management and operations of these scattered properties is possible and efficient.

The developer must obtain a resolution from the municipality in which the project will be located reciting that there is a need for their particular housing project in that municipality.

Eligible Sponsors/ Borrowers

Qualified housing sponsors are defined as qualified for-profit and non-profit housing sponsors, preferably with experience in providing housing; or, associations of persons organized under the New Jersey Statutes; or any corporation having for one of its purposes the improvement of realistic opportunities for low- and moderate-income housing, and appearing capable, by virtue of past activities, qualifications of staff or board, or other features, to develop and operate housing projects.

Sponsoring entity must be formed for the sole purpose of owning and operating the project and shall own no other assets unrelated to the project.

NOTE: HMFA will not consider any new/additional financings to developers/sponsors or their principals who currently have an outstanding HMFA mortgage loan(s) and who: (1) are more than twelve (12) months delinquent on said mortgage loans(s) unless the developer/sponsor develops and provides a workout plan that is acceptable to the HMFA Executive Director and Chief Financing Officer and is compliant therewith, or (2) have been served with a notice of default, monetary or otherwise pursuant to the mortgage loan documents, unless and until (a) such default has been cured by the developer/sponsor to the satisfaction of the Executive Director or, if applicable, the HMFA Board, or (b) developer/sponsor develops and provides a workout plan that is acceptable to the HMFA Executive Director and Chief Financing Officer or, if applicable, the HMFA Board, and is compliant therewith.

Nothing in the foregoing is intended to limit the rights of the Agency to exercise its remedies under the mortgage loan documents at any time.

Maximum Loan Amount

Developers may borrow 90% of the HUD or local Housing Authority's guaranteed purchase price. No developer fees may be paid from the HMFA loan.

For non-profit developers, the maximum loan amount may not exceed 100% of the total project costs.

For profit-motivated developers, the maximum loan amount may not exceed 90% of the total project costs. The 90/10 ratio of loan amount to project cost must be maintained on a cumulative basis for each construction draw when using HMFA construction financing.

For all loans, whether to non-profit or profit-motivated developers, the HMFA reserves the right to set the actual loan amount in accordance with the HMFA's overall program goals, and determination of acceptable risk. Accordingly, the actual loan amount may be less than the maximum amount permitted above.

Construction Period Risk*

All loans must be secured by a 100% payment and performance bond for a term from the HMFA loan closing date through 2 years from the date of issuance of the Certificate of Occupancy or Architect's Certification of Substantial Completion, whichever is the later.

When doing staged take-out financing, the bond shall be in an amount sufficient to cover the cost of all site improvements and all phases of a staged take-out development.

* All bonding companies must be rated with an A.M. Best Rating of B+ or better.

Risk Analysis

Projects may be subject to additional credit enhancement obligations based upon the HMFA's assessment of the associated risk involved in providing a mortgage for construction only, construction and permanent or permanent only financing. (for any construction financing an additional 6 months will be added to construction term period). Such enhancement obligations may include but are not limited to mortgage insurance, recourse loans, an operating deficit reserve account, or a guaranty of the principal owner of the project's ownership entity for repayment of the Agency financing, or other credit enhancement that may be deemed acceptable to the Agency underwriting staff.

In addition to the aforementioned enhancements, HMFA may recommend that developers, with little or no experience in housing development and/or with the HMFA, should partner with a successful developer that has developed and operated at least two other developments of similar size and scope to the subject development. Successful developers are defined, but are not limited to, (1) those that have completed projects on time and on budget with no outstanding issues, (2) being current with debt service payment obligations, (3) being in good standing with federal, State and municipal governments, as determined by Agency staff (4) having no issues of non-compliance housing issues of any kind and (5) those that have completed projects that are occupied and sustainable and are maintaining and acceptable debt_service coverage ratio for six consecutive months as of the submission of application to HMFA.

Furthermore, the HMFA will add an additional 6 months to the construction term and may require experienced general contractors only. Experienced general contractors are defined, but not limited to: 1) having successfully completed at least two other projects similar in size and scope 2) completing the projects on time and on budget 3) being in good standing with federal,State and municipal government and the Better Business Bureau 4) having no issues of non-compliance of any kind.

Term

The maximum loan term is coterminous with the HUD Turnkey Contract or up to and including two years.

Junior Financing

The HMFA will not permit junior financing that begins amortization prior to the payoff of the HMFA construction loan.

Lien Status

All loans will be secured by a first mortgage on the land and improvements.

Security/Collateral

Loans with Turnkey Contract will be additionally secured by an assignment of a Turnkey Contract in the amount of 110% of the Agency mortgage. All other loans are secured or collateralized by a first lien on the land and improvements. All means of security must be satisfactory to the HMFA.

Mortgage Interest Rate

The mortgage interest rate is a fixed rate for the term of the mortgage and will be determined based upon the HMFA's actual cost of funds and allowable spread. The rate will be locked at the earlier of execution of loan closing or one week prior to bond pricing. For current rates, you may call the Multi-Family Programs Division or visit our web site at www.state.nj.us/dca/hmfa/biz/devel/multi/interest.html.

The rate is locked one week prior to the pricing of bonds that will fund the loan and will be fixed for the term of the loan assuming no rate lock is executed and project has not closed, developers are responsible for the interest rate risk prior to that period as the positive or negative change in the interest rate will have the effect of increasing or decreasing the mortgage that the project can support and remain in compliance with the HMFA's Underwriting criteria.

Commitment Term

Construction and permanent loan commitments will expire 90 days after the anticipated construction start date. The Executive Director is authorized to extend the commitment for two additional consecutive

90-day periods, if deemed appropriate in their sole discretion. A written request for extensions must be made.

Underwriting Analysis

- Site inspection.
- Land valuation - The HMFA recognizes the lesser of the appraised value or the purchase price of the last arms length transaction, as determined by the HMFA.
- Review of construction budget.
- Design review of site plan, buildings, and units.
- Affirmative Housing Marketing Plan pursuant to NJAC 5:80-22

Building Design

The HMFA discourages the use of EIFS (Exterior Insulation Finish Systems such as DRYVIT) and electric heating systems. If the use of either of these systems is contemplated, it must be disclosed at the application stage and written authorization received from the HMFA before engaging professionals to produce Design Development drawings.

Unit Standards for gut rehabilitation and new construction units only:
For the most part, HMFA does not dictate the design of the project; however it has set minimum unit sizes for gut rehabilitation and new construction. If the minimum unit sizes cannot be met, justification must be provided and a market study will be required to evaluate the marketability of the smaller units compared to the comparables in the study. In addition, possible solutions to accept smaller units may include, but may not be limited to discounting the rents, increasing the working capital reserve account, etc….

The sizes listed
below are minimums only. Measurements are taken from the inside faces of the perimeter walls of the units.

Minimum unit sizes:
Efficiency/Studio Units – minimum of 550 sq. ft.
One-Bedroom Units – minimum of 600 sq. ft.
Two-Bedroom Units – minimum of 850 sq. ft.
Three-Bedroom Units – minimum 1,150 sq. ft.
Four-Bedroom Units – minimum 1,250 sq. ft.

NOTE:
In addition, units with three bedrooms or more must have at least 1 ½ bathrooms.

Developers are encouraged to make developments as energy efficient as possible by utilizing the standards provided within the DOE/EPA's ENERGY STAR program and to review the current 'Guide to NJHMFA ENERGY STAR Requirements' for more options. In addition, the NJHMFA strongly supports projects that incorporate "green" building concepts; categorized as energy efficiency, renewable energy, and green building. For more information, please contact the NJ Green Homes Office, located within NJHMFA, and found at www.njgreen.gov.

Developers are also encouraged to install individual metering with direct billing by the utility provider for gas and electric for all new construction projects, all gut and substantial rehabilitation of unoccupied buildings, and all conversions or adaptive reuse of existing structures. Master metering is also permitted, but individual metering is encouraged. NOTE: *NJ ENERGY STAR Homes requires that at least one utility (electric or gas) be individually metered.*

Submetering of gas, electric and/or water and sewer is specifically prohibited for all new construction, all gut and substantial rehabilitation of unoccupied buildings and all conversions or adaptive reuse of existing structures.

For **substantial (gut) rehabilitation projects**, a structural engineering report on the existing structure, acceptable to the HMFA, must be submitted. All existing mechanical, plumbing and electric systems must be replaced.

If the degree of rehabilitation to be accomplished is **less than substantial**, an engineer's report describing the condition of these building systems, and listing their recommendations, must be submitted. The HMFA's **GUIDELINES AND CHECKLIST FOR ASSESSING EXISTING BUILDING SYSTEMS** describes issues and offers recommendations to follow in preparing this report.

In all **multi-story buildings** that contain an elevator, a trash chute and compactor are to be installed.

In **aged restricted buildings** the following items are to be installed:

Emergency pull cords in bathrooms and bedrooms.

A grab bar to facilitate entering and exiting a bathtub or shower.

Handrails on both sides of common corridors.

An emergency generator serving common areas and elevators.

Construction Budget

The construction budget must be supported by a Summary Trade Payment Breakdown signed by the contractor. This document and other supporting schedules such as the construction completion schedule and design development drawings must be submitted by the contractor and approved by the Director of Technical Services. Refer to the Technical Services Requirements attached to the Document Checklist, for the timing of the submission of these documents.

Wage Rates

General contractors and subcontractors must pay prevailing wages as determined by the N.J. Department of Labor except that prevailing wages determined by the U.S. Department of Labor under the Davis-Bacon Act shall be used if the HMFA construction loan is subject to direct or indirect federal assistance, e.g., the project receives project-based Section 8 subsidies.

Sales Tax Exemption

Sales of materials or supplies to housing sponsor utilizing HMFA construction financing are exempt from NJ State Sales tax. Sales of materials or supplies to contractors for the purpose of erecting housing projects which have received HMFA construction financing and other local, state or federal subsidies are exempt from NJ State sales tax.

Environmental Review

The HMFA requires the submission of a Phase I Environmental Assessment and Phase II Environmnetal Assessment should the Phase I call for further investigation.

Should remediation be recommended, a Preliminary Assessment Report as described in N.J.A.C. 7:26E-3.2 is required. Additional assessments such as a Site Investigation described in N.J.A.C. 7:26E-3.3 et seq., or DEP environmental remediation measures may also be warranted. Rehabilitation projects must provide a plan for asbestos removal and remediation of lead-based paint and radon. A letter of "no further action" from DEP may be required.

A transaction update from the consultant, indicating that no further pollutants have been introduced to the site will be required on all assessments or investigations prepared more than six months prior to construction start.

Professional Liability Insurance

Contractor

- General liability
- Worker's compensation
- Contractor's public liability in the sum of $1,000,000/$3,000,000 and property insurance of $250,000/$500,000

Architect

Architects must have Errors & Omission Insurance of 10% of the construction costs or $250,000, whichever is greater.

*All insurance must be issued by a firm with an A.M. Best Rating of A- VII or better acceptable reinsurance.

General Liability Insurance*

All insurance must be issued in accordance with New Jersey Housing and Mortgage Finance Agency Insurance Specifications Minimum Requirements effective April 1, 2006 as may be amended from time to time.

*All insurance must be issued by a firm with an A.M. Best Rating of A- VII or better with acceptable reinsurance.

Developer's Fee

With Turnkey Contract, the Developer's Fee will be paid upon the repayment of the HMFA loan and is limited to the remaining funds allocated to the Turnkey Contract.

The amount of the developer fee allowed for eligible rehabilitation or new construction costs is limited to 15.00 percent of total development cost excluding acquisition (that is land and building), working capital, marketing expenses, escrows, operating deficit reserves, step-in-the-shoes costs and costs associated with syndication as determined by HMFA. However, a developer fee of up to 20.00 percent (of total development costs excluding acquisition, working capital, marketing expenses, escrows, operating deficit reserves, step-in-the-shoes costs and costs associated with syndication) is allowed for 1) scattered sites single-family detached or duplex housing 2) projects of 25 units or less or 3) Supportive Housing Cycle projects.

In addition, the non-deferred portion of the developer fee for all projects shall not exceed 8.00 (13.00 percent for the three types of housing referenced 1, 2 and 3 above) of the total development cost excluding acquisition, working capital, marketing expenses, escrows, operating deficit reserves, step-in-the-shoes costs and costs associated with syndication. The deferred portion of the developer fee shall be achieved from cash flow by way of Return on Equity after payment of debt service, operating expenses and funding of all required escrows and reserves.

A developer fee of up to 8.00 percent shall be permitted for building acquisition costs; however, the non-deferred amount of this portion of the developer fee shall not exceed 4.00 percent of the acquisition amount.

The developer fee does not include fees paid to the architect, engineer, lawyer, accountant, surveyor, appraiser, professional planner, historical consultant, and environmental consultant. Executed contracts for these professionals shall be submitted to the HMFA before being recognized as a separate line item expense. Certain fees are subsumed within the developer fee – such as acquisition fees, compensation to the general partner, financial consultants, employees of the developer, construction managers/monitors, clerk of the works and syndicator-required consultants.

Developers may pledge their fee toward meeting the equity requirement. The amount allowable will be determined at the sole discretion of the HMFA. **The developer's fee is earned on a pro-rata basis during the construction period based upon the percentage of construction completion. The unpledged portion of the developer's fee is payable only when earned and is earned only after the entire pledged portion has been earned.**

Escrow Requirements

The development budget must include funding of escrows for insurance, and real estate taxes for the term of the HMFA mortgage. The escrows are to be funded at the time of loan closing.

Construction Contingency

The contingency may be used to cover increases in both hard and soft costs.

The budgeted contingency for new construction projects is 5% of the construction costs.

The contingency for rehabilitation projects is 10% of the construction costs. This may be adjusted based upon an acceptable engineering report submitted to the HMFA.

The budgeted contingency for soft costs must be at a minimum of 1% of the budgeted expenses.

TYPICAL HMFA FEES AND COSTS ASSOCIATED WITH THE TRANSACTION

Fees and Charges

Application Fee	Developers will be responsible for payment of a non-refundable application fee of **$2,500 due** at the time of the initial application. For Preservation projects, if a project is currently in the HMFA's portfolio, the application fee is waived.
Financing Fee on Non-Amortizing Debt	The HMFA charges two points financing fee on construction only financing as well as construction bridge loans..
Construction Servicing Fee	A 50 basis points servicing fee on the principal loan amount must be budgeted. This fee is incurred annually and billed monthly in equal installments throughout the anticipated construction term and is based on the original note amount.
Commitment Fee	The Developer will be required to pay a commitment fee in an amount equal to one (1) percent of the estimated mortgage amount projected at mortgage commitment but not to exceed $50,000. This fee may be paid in cash or posting an unconditional and irrevocable letter of credit acceptable to the HMFA. The commitment fee is refundable at the later of the issuance of bonds or mortgage closing. In the event that the project does not proceed to mortgage and/or bond closing, the fee shall not be refunded.
Re-Commitment Fee (non-refundable)	A $2,500 re-commitment fee will be charged. This fee is due prior to the Board issuance of a re-commitment.
Sponsor's Predevelopment Loan	**Reimbursement of Sponsor's predevelopment loan will be allowable at a rate of Prime plus two points, simple interest.**
Processing and Review Fee	An additional processing and review fee of $2,000 will be charged to any project sponsor, which seeks Agency financing to be secured by a leasehold mortgage.